

Message Text

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ACTION TRSE-00

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FM AMEMBASSY DACCA

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E.O. 11652: N/A

TAGS: AFIN, EFIN, BG

SUBJECT: DESIGNATION OF BANGLADESH AS NEAR-EXCESS CURRENCY
COUNTRY.

REF: STATE 214408

SUMMARY: REFTEL REQUESTED EMBASSY COMMENTS TO TREASURY
CONSIDERATIONS THAT BANGLADESH BE DECLARED NEAR EXCESS
CURRENCY COUNTRY. EMBASSY ANTICIPATES PROBLEMS FOR
USAID IN SUCH DESIGNATION, POSSIBLY UNFAVORABLE REACTION
ON PART OF BDG, AND GIVEN LIMITED AMOUNT OF TAKAS
AVAILABLE AND UNLIKELIHOOD SUBSTANTIALLY MORE WILL BE
RECEIVED, RECOMMENDS AGAINST DESIGNATION OF BANGLADESH
AS NEAR EXCESS CURRENCY COUNTRY. END SUMMARY.

1. AS DEPARTMENT IS AWARE, EMBASSY RECEIVED SOME 35
MILLION TAKA IN AUGUST UPON CONCLUSION AMERICAN EXPRESS
INTERNATIONAL BANKING CORPORATION (AMEXCO) LIQUIDATION
OF DEBT PAYABLE USG BY DEPOSIT OF TAKA TO USDO
ACCOUNT DACCA. BDG INFORMED OF THIS TRANSACTION BY NOTE.
NO REPLY HAS YET BEEN RECEIVED BUT BDG COULD
CONCEIVABLY RAISE QUESTIONS IF ADVERSE EFFECTS ON
BDG FOREIGN EXCHANGE EARNINGS WERE PERCEIVED.

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TRANSFER ISSUE IS HIGHLY SENSITIVE SINCE IT COULD BE

SEEN AS INVOLVED IN GREATER ISSUE OF TRANSFER OF ASSETS AND LIABILITIES BETWEEN BDG AND PAKISTAN. AMEXCO DACCA OFFICIALS HAVE EXPRESSED VIEW THAT ALTHOUGH SWAP ARRANGEMENTS HAD BEEN EFFECTED BDG COULD SEIZE ON

ISSUE AND DEMAND AMEXCO REVERSE THIS DEPOSIT MADE TO SETTLE OBLIGATION OF AMEXCO KARACHI. EMBASSY CONSIDERS SUCH A MOVE UNLIKELY BUT FAR FROM IMPOSSIBLE IF LOSS OF CUSTOMARY FOREIGN EXCHANGE CAUSED BDG EXAMINATION OF SOURCE USDO TAKA HOLDINGS.

2. IMPACT ON USG AGENCIES AND EMPLOYEES OF A NEAR EXCESS CURRENCY DECLARATION IN BANGLADESH APPEARS MINIMAL. ALL OFFICIAL EXPENDITURES IN TAKA AND ALL ACCOMMODATION EXCHANGE FOR USG PERSONNEL ARE NOW MADE AGAINST TAKAS HELD IN USDO ACCOUNT. ONLY IMMEDIATE DIFFERENCE WOULD BE TAKA PAYMENT OF ALLOWANCES (4 FAM 572.2) AND OF ALL IN-COUNTRY TRAVEL COSTS (4 FAM 468).

3. USAID HOWEVER SEES NUMEROUS LEGAL AND PROCEDURAL QUESTIONS ARISING FROM SUCH DESIGNATION. WOULD REQUIREMENT THAT PAYMENT OF ALL USG AGENCIES OFFICIAL EXPENSES FROM USG HELD LOCAL CURRENCIES EXTEND TO CONTRACT AND VOLUNTARY AGENCY PROGRAMS AND PERSONNEL? IF SO, WOULD USAID BE ABLE ENFORCE THIS REQUIREMENT ON CONTRACT COMPANIES AND CONTRACT EMPLOYEES? WOULD PRESENT AGREEMENTS HAVE TO BE REWRITTEN? IMPACT OF SUCH REVISIONS MIGHT INVOLVE BDG BEYOND QUESTION OF TAKA-PAKISTAN RUPEE TRANSFER DISCLOSED PARA ONE.7A

4. EMBASSY NOTES THAT IF LOCAL COST FINANCING OF CONTRACTS AND ACCOMMODATION EXCHANGE FOR LOCAL LIVING EXPENSES CONTRACT EMPLOYEES WERE MET FROM USDO ACCOUNT,

THE SUM 32 MILLION 600 THOUSAND TAKA YET UNDISBURSED WOULD BE DISBURSED WITHIN AN ESTIMATED NINE-TWELVE MONTHS. REAL AND POTENTIAL PROBLEMS WOULD BE ENCOUNTERED IN ANY DECLARATION OF EXCESS CURRENCY WHICH INCLUDED CONTRACT AND VOLUNTARY AGENCIES AND SUCH A DESIGNATION WOULD BE IN FORCE ONLY AN ESTIMATED PERIOD OF LIMITED OFFICIAL USE

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NINE-TWELVE MONTHS BEFORE THE TAKA ON HAND WERE DISBURSED. THE EMBASSY SEES LITTLE LIKELIHOOD OF OBTAINING SUBSTANTIAL SUMS OF TAKA EXCEPT THROUGH PURCHASE FOR DOLLARS AFTER THE PRESENT HOLDINGS ARE DISBURSED.

5. IT MIGHT BE POSSIBLE TO DECLARE BANGLADESH A NEAR EXCESS CURRENCY FOR TRANSACTIONS BY USG AGENCIES ONLY, DEPENDING ON DEPARTMENT AND TREASURY'S RESPONSE TO

QUESTIONS RAISED PARA THREE. THIS HOWEVER, WOULD ACCOMPLISH LITTLE SINCE ALL OFFICIAL TRANSACTIONS BY USG AGENCIES AND PERSONNEL ARE NOW IN USG HELD TAKA.

6. EMBASSY SEES NO DIFFICULTY WITH PRESENT PROCEDURE AND ENVISIONS USDO HOLDING WILL BE DISBURSED IN SOME 30-36 MONTHS. TO ACCELERATE THAT SCHEDULE BY

EXPANDING USDO ACTIVITIES TO INCLUDE CONTRACT AND VOLUNTARY AGENCY USAID-FUNDED PROGRAMS WOULD BE OF SHORT TERM BENEFIT AT BEST SINCE ONCE TAKAS ON HAND ARE DISBURSED THE USDO WILL REVERT TO ISSUING TREASURY CHECKS FOR TAKA. EMBASSY FEELS THE PROBLEMS THAT WOULD BE CAUSED BY A TEMPORARY DESIGNATION OF BANGLADESH AS A NEAR-EXCESS CURRENCY COUNTRY OUTWEIGH THE TEMPORARY BENEFITS THAT MIGHT ACCRUE TO THE USG AND RECOMMENDS AGAINST SUCH A DESIGNATION.
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